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11   UNITED STATES DISTRICT COURT

12   NORTHERN DISTRICT OF CALIFORNIA

13   SAN JOSE DIVISION

14 RSI CORP., dba RESPONSIVE   CASE NO. 5:08-cv-3414 (RMW/HRL)
    SYSTEMS COMPANY, a New Jersey
15 corporation,
                                         **AMENDED NOTICE OF MOTION
16   AND MOTION TO DISMISS OR, IN
                                         THE ALTERNATIVE, STRIKE;
17   Plaintiff,   MEMORANDUM OF POINTS AND
                                         AUTHORITIES IN SUPPORT
18   vs.   THEREOF**

19
    INTERNATIONAL BUSINESS
20 MACHINES CORPORATION; and   Crtrm.:   6, 4th Floor
    DOE DEFENDANTS 1-20,   Judge: Hon. Ronald M. Whyte
21   Hearing Date: September 5, 2008
                                         Hearing Time: 9:00 a.m.
22   Defendants.

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20502/2584777.1   Case No. 5:08-cv-3414 (RMW/HRL)

1   TO PLAINTIFF AND ITS ATTORNEYS OF RECORD:

2   PLEASE TAKE NOTICE that on September 5, 2008, at 9:00 a.m. or as soon

3   thereafter as counsel may be heard, in the Courtroom of Hon. Ronald M. Whyte, at

4   the United States District Court for the Northern District of California, San Jose

5   Division, located at 280 South First Street, San Jose, California, defendant IBM

6   Corporation will and hereby does move this Court for an order dismissing plaintiff's

7   Complaint, pursuant to Federal Rules of Civil Procedure 7, 9 and 12(b)(6) or, in the

8   alternative, striking portions of plaintiff's Complaint pursuant to Federal Rule of

9   Civil Procedure 12(f), in defendant IBM's favor with regard to all causes of action

10 alleged in plaintiff's Complaint filed herein dated February 12, 2008.

11   Plaintiff's causes of action must be dismissed because they are time-barred by

12 the express terms of the parties' agreement. Plaintiff's tort and unfair competition

13 claims are also barred by New York's economic loss rule. Plaintiff's fraud and

14 intentional misrepresentation claims must be dismissed for plaintiff's failure to plead

15 facts with particularity. Plaintiff has further failed to allege facts sufficient to state a

16 claim under the Lanham Act or for restraint of trade. Plaintiff's purported causes of

17 action for unclean hands and punitive damages must be dismissed because they are

18 not causes of action at all. Plaintiff's claim and prayer for punitive damages must

19 also be dismissed or stricken because punitive damages are barred by the express

20 terms of the parties' agreement and are unwarranted under New York law.

21   This motion is based upon this Amended Notice of Motion and Motion, the

22 Memorandum of Points and Authorities in support thereof (which has been

23 reformatted for filing in the United States District Court for the Northern District of

24 California), the concurrently-filed Request for Judicial Notice, all pleadings and

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1 | papers on file in this action, such other evidence or arguments as may be presented

2 | to the Court, and such other matters of which this Court may take judicial notice.

3

4 | DATED: August 1, 2008   QUINN EMANUEL URQUHART OLIVER & HEDGES, LLP

5

6 | By /s/

7 | Shon Morgan
                                               Attorneys for Defendant International
8 | Business Machines Corporation

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-3-   Case No. 5:08-cv-3414 (RMW/HRL)
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MEMORANDUM OF POINTS AND AUTHORITIES

Introduction

Plaintiff RSI did not attach the agreements upon which it sues to its complaint for a simple reason: Their express terms bar all of plaintiff's claims. At the outset of their business relationship, the parties agreed to a mutual provision requiring both parties to bring any claims against the other within two years. Although plaintiff states it became aware in 2004 of IBM's alleged failure to pay royalties under the agreement—the purported breach of contractual duty which underlies every single one of plaintiff's causes of action—plaintiff did not file suit until long after 2006. All of plaintiff's claims are thus time-barred.

Although the parties' agreement is dispositive, plaintiff's tort and unfair competition claims are also barred by New York's "economic loss rule," which prevents RSI from dressing up a straightforward breach of contract claim as no less than *eight* different torts and unfair competition claims. Where a party alleges solely economic losses (no personal injury or property damage) and seeks only the benefit of a contractual bargain, New York law provides that the remedy lies exclusively in contract.

For these and other reasons discussed below, plaintiff's Complaint contains fatal defects and should be dismissed with prejudice.

Relevant Factual Background

Plaintiff RSI Corp., which does business as Responsive Systems Company, created a software product called Buffer Pool Tool that it licensed to IBM to remarket to IBM's own customers.[1] The parties entered into a series of written

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[1] Complaint, dated February 12, 2008 ("Compl.") ¶¶ 1, 4-5. For the purposes of this motion to dismiss and motion to strike only, IBM relies on the factual allegations as pleaded by plaintiff, unless otherwise noted.

-1-   Case No. 5:08-cv-3414 (RMW/HRL)
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1 agreements: (1) an IBM Developer Agreement and Statement No. STL 97041, dated

2 June 23, 1997; and (2) the IBM Developer Agreement and Statement No. STL

3 97051, dated April 21, 1998.[2] Plaintiff alleges that "[p]ursuant to such Agreement,

4 and others entered into between the parties, . . . IBM was to pay [p]laintiff certain

5 royalties for the [Buffer Pool Tool]."[3]

6   According to plaintiff, "[d]efendant IBM failed to pay the license fees due to

7 [p]laintiff as set forth in the Agreement and other agreements between the parties."[4]

8 Plaintiff further alleges that when plaintiff sought audits "as provided for in the

9 Agreement[,] IBM failed and refused to provide the necessary documents for a

10 proper audit."[5]

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13   [2] *Id.* ¶¶ 6-7 (tracking plaintiff's allegations). In fact, the 1997 and 1998

14 contracts bear the same agreement number, STL97041, and consist of various

15 component documents. The 1997 Agreement consists of three documents: (1) the
    IBM Developer Agreement, Agreement No.: STL97041, dated June 23, 1997

16 (Request for Judicial Notice in Support of Defendant IBM's Motion to Dismiss or,

17 in the Alternative, Strike, dated May 27, 2008, filed concurrently herewith ("RJN")
    Ex. A); (2) a Description of Licensed Work, Agreement No.: STL97041, DLW No.:

18 001, dated June 23, 1997 (RJN Ex. B); and (3) the Statement of Work, Agreement

19 No. STL97041, SOW No.: 001, dated June 23, 1997 (RJN Ex. C). *See* RJN Ex. B at
    1 (listing components of agreement); RJN Ex. C at 1 (same).

20
    The 1998 Agreement consists of the three documents comprising the 1997

21 agreement *plus* (1) the Description of Licensed Work, Agreement No.: STL97041,
    DLW No.: 002, dated April 21, 1998 (RJN Ex. D); and (2) the Statement of Work,

22 Agreement No.: STL97041, SOW No: 002, dated April 21, 1998 (RJN Ex. E). *See*

23 RJN Ex. D at 1 (listing components of agreement, but with typographical error in
    agreement number); RJN Ex. E at 1 (listing components of agreement, but with

24 typographical error, referring to "this" agreement "number 001").

25   [3] Compl. ¶ 8.

26   [4] *Id.* ¶ 9.

27   [5] *Id.*

28

1   IBM told plaintiff it discontinued remarketing the Buffer Pool Tool to IBM's

2 customers.[6] Plaintiff alleges that in 2004, it "discovered for the first time [that]

3 certain [IBM customers] continued to utilize the Buffer Pool Tool in violation of

4 any contract that the parties had [and] in violation of any licensing agreement."[7]

5   Plaintiff alleges claims for: (1) breach of contract; (2) negligent

6 misrepresentation; (3) intentional misrepresentation; (4) fraud; (5) breach of the

7 covenant of good faith and fair dealing; (6) conversion; (7) unfair competition in

8 violation of 15 U.S.C. § 1125(a)); (8) common law unfair competition; (9) restraint

9 of trade; (10) "unclean hands"; and (11) punitive damages.[8]

10

11   **Argument**

12 I.   **RULE 12 STANDARDS**

13   A claim should be dismissed under Rule 12(b)(6) of the Federal Rules of

14 Civil Procedure if the plaintiff fails to state either a cognizable legal theory or

15 sufficient facts to obtain a remedy under a cognizable legal theory. *See, e.g.,*

16 *Balistreri v. Pacifica Police Dep't*, 901 F.2d 696, 699 (9th Cir. 1988). A Rule

17 12(b)(6) motion is properly granted when it is clear the pleader can prove no set of

18 facts that would entitle it to relief. *Guerrero v. Gates*, 442 F.3d 697, 703 (9th Cir.

19 2006). A motion to dismiss is also properly granted if an affirmative defense or

20 other bar to relief is apparent from the face of the complaint, such as a statute of

21 limitation. *Regan v. Dep't of Pub. Safety*, Civ. No. 07-00029 JMS-BMK, 2007 WL

22 372775 at *3 (D. Haw. Oct. 18, 2007).

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25   [6] *Id.* ¶ 10.

26   [7] *Id.* ¶ 11.

27   [8] *Id.* ¶¶ 14-18, 20-24, 26-30, 32, 35-36, 38-41, 43-46, 48-49, 51-53, 55, 57-58.

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1   The Court is not confined to the plaintiff's allegations alone but may consider

2   "[d]ocuments whose contents are alleged in a complaint and whose authenticity no

3   party questions, but which are not physically attached to the pleading," such as the

4   contracts upon which plaintiff sues here. *Branch v. Tunnell*, 14 F.3d 449, 454 (9th

5   Cir. 1994), *overruled on other grounds by Galbraith v. County of Santa Clara*, 307

6   F.3d 1119, 1126 (9th Cir. 2002); *Regan*, 2007 WL 3072775 at *2.

7   II.   **<u>NEW YORK LAW GOVERNS</u>**

8   The parties' contracts expressly provide that New York law governs. *See*

9   IBM Developer Agreement, Agreement No. STL97041, dated June 23, 1997, at §

10   13.6 (RJN Ex. A) ("GOVERNING LAW. The <u>substantive laws of the State of New

11   York</u> applicable to agreements fully executed and performed in New York <u>govern

12   the IDA</u>.") (emphasis added). Hawaii courts will enforce a choice-of-law provision

13   if "the chosen law has some nexus with the parties or the contract." *Airgo, Inc. v.

14   Horizon Cargo Transp., Inc.*, 66 Haw. 590, 595, 670 P.2d 1277, 1281 (1983).

15   IBM's incorporation in New York provides that nexus. *See, e.g.*, *id.*, 66 Haw. at

16   591, 670 P.2d at 1279 (applying Texas law where contract stated that Texas law

17   would apply and one party was "a Texas freight transport company"); *see also

18   Folium, Inc. v. Int'l Bus. Machs. Corp.*, Civil No. 03-92-DAE/LEK, Opinion and

19   Order (D. Haw. Aug. 11, 2003) (RJN Ex. F) (dismissing claims on similar facts and

20   applying same choice of law provision; "the choice-of-law clause is enforceable

21   under Hawaii law because IBM is a New York corporation"). Thus, the choice-of-

22   law provision is enforceable.

23   New York law also applies to RSI's tort claims, which merely restyle its

24   breach of contract claim. Although Hawaii courts have not addressed this issue, the

25   California Supreme Court has held that tort claims related to a contract claim fall

26   within a contractual choice-of-law provision, especially where (as here) those tort

27   claims are simply the "alter-ego" of the contract claims. *Nedlloyd Lines B.V. v.

28   Superior Court*, 3 Cal. 4th 459, 470, 11 Cal. Rptr. 2d 330, 337 (1992) ("[A] valid

1   choice-of law clause, which provides that a specified body of law 'governs' the

2   'agreement' between the parties, encompasses all causes of action arising from or

3   related to that agreement, regardless of how they are characterized, including

4   tortious breaches of duties emanating from the agreement or the legal relationships it

5   creates.").[9] Hawaii courts often look to California law on issues of first impression.

6   *See, e.g., Jaress & Leong v. Burt*, 150 F. Supp. 2d 1058, 1065 (D. Haw. 2001)

7   (noting that "the Hawaii Supreme Court would likely follow the California

8   reasoning" on effect of dismissals against nonconsenting defendants); *Allstate Ins.*

9   *Co. v. Kim*, 121 F. Supp. 2d 1301, 1307 n.3 (D. Haw. 2000) ("The Hawaii Supreme

10 Court has frequently followed California [c]ourts in rendering opinions on insurance

11 matters."); *Hays v. City and County of Honolulu*, 81 Haw. 391, 396, 917 P.2d 718,

12 723 (1996) ("[I]n interpreting our statute, we reject the [federal] rule and adopt, with

13 clarification, the California rule."). Accordingly, Hawaii would likely follow

14 *Nedlloyd* and other courts to apply the choice of law clause to related tort claims.

15   Notably, the choice-of-law provision in IBM's Developer Agreement has

16 already been applied to tort and unfair competition claims in a case alleging similar

17 facts. *See Cardonet, Inc. v. IBM Corporation*, No. C-06096637, 2007 WL 518909

18 at *3 (N.D. Cal. Feb. 14, 2007) (applying New York law to interpret breadth of

19

20   [9] *Accord McAdams v. Massachusetts Mut. Life Ins. Co.*, No. Civ. A. 99-30284-
    FHF, 2002 WL 1067449 at *12-13 (D. Mass. May 15, 2002) ("[A] choice of law
21 provision should apply to non-contract claims where the basic source of any duty
    owed by defendants to the plaintiff is derived from the contractual relationship
22 structured by the underlying agreement."); *id.* ("[T]he federal common law, as
    articulated by the Court of Appeals for the First Circuit, holds that 'contract-related
23 tort claims involving the same operative facts as a parallel claim for breach of
24 contract should be heard in the forum selected by the contracting parties.'");
    Druckers', Inc. v. Pioneer Elecs. (USA), Inc., Civ. A. No. 93-1931, 1993 WL
25 431162 at *7 (D.N.J. Oct. 20, 1993) (choice-of-law clause applied to tort claims
26 where there was "no basis for [them] independent of the Agreement—absent the
    contractual relationship[,] [defendant]'s actions would not have occurred").
27

28

1   choice-of-law provision and concluding "the choice-of-law provision reaches all of

2   plaintiff's claims [including fraud, negligent misrepresentation, conversion, and

3   California statutory unfair competition claims] since the claims as pled seek the

4   benefit of plaintiff's bargain with IBM and seek damages of the type remedial in

5   contract under New York laws."). Under the similar facts of this case, New York

6   law should apply to plaintiff's tort and common law unfair competition claims.

7   III.   **PLAINTIFF'S CLAIMS ARE ALL TIME-BARRED BY THE**

8   **PARTIES' CONTRACTUAL AGREEMENT**

9   RSI and IBM agreed in writing that, except for indemnification actions,

10   "neither of [them] will bring a legal action against the other more than two (2) years

11   after the cause of action arose."[10] Plaintiff admits that "[o]n or about the year 2004,

12   [p]laintiff discovered for the first time certain . . . [IBM] customers . . . continued to

13   utilize the Buffer Pool Tool in violation of any contract that the parties had[.]"[11]

14   Thus, plaintiff's claims—all of which are based on IBM's alleged failure to pay

15   royalties—had to be brought within two years, i.e., in 2006, under the express terms

16   of the parties' agreement.[12]

17   It is well-established that parties can shorten limitations periods by

18   agreement. *See, e.g.,* N.Y. C.P.L.R. § 201 (McKinney 2003) (actions "must be

19   ─────────────────────

20   [10]   IBM Developer Agreement at § 13.3 (RJN Ex. A) ("ACTIONS. Except for
      actions brought to enforce Section 7.0, "INDEMNIFICATION AND LIABILITY,"
21   neither of us will bring a legal action against the other more than two (2) years after
      the cause of action arose.").
22

23   [11]   Compl. ¶ 11.

24   [12]   Plaintiff includes a seemingly errant allegation that "[o]n or about 2006,
      [p]laintiff discovered for the first time that IBM was infringing upon materials
25   copyrighted by [p]laintiff in its manuals for the Buffer Pool Analyzer." Compl. ¶
      12. RSI has brought no copyright infringement claim. Even if this allegation was
26   intentionally included by plaintiff, it is irrelevant to all of RSI's claims, which are
27   based on IBM's alleged failure to pay royalties to RSI or facilitate audits.

28

1 commenced within the time specified in this article unless . . . a shorter time is

2 prescribed by written agreement"); *Allman v. UMG Recordings*, 530 F. Supp. 2d

3 602, 606-07 (S.D.N.Y. 2008) ("Courts applying New York law have routinely

4 upheld the enforceability of contractual limitations periods similar to the Limitation

5 Provision.") (collecting cases); *John J. Kassner & Co., Inc. v. City of New York*, 46

6 N.Y.2d 544, 550-51, 415 N.Y.S.2d 785, 789 (1979) (agreements reasonably

7 shortening limitations periods are enforceable).

8   That is exactly what the parties did here, with a mutual limitation that can

9 benefit either party. A two-year period in which to sue is reasonable and

10 enforceable by any standard.[13] *Redington v. Hartford Accident & Indem. Co.*, 463

11 F. Supp. 83, 85-86 (S.D.N.Y. 1978) (enforcing contractual limitation that party

12 bring action on bond within two years); *H.P.S. Capitol, Inc. v. Mobil Oil Corp.*, 186

13 A.D.2d 98, 98-99, 588 N.Y.S.2d 29, 30 (1st Dept. 1992) (one-year shortened

14 limitations period in retail dealer agreement was reasonable, valid, and enforceable).

15 Because all plaintiff's claims arise from the parties' agreements, the limitations

16 provision of the IBM Developer Agreement bars all plaintiff's claims.[14]

17

18 _____

19   [13]   Such a provision was particularly reasonable where, as here, New York's six-

20 year statute of limitations for contract actions is very long for a contract involving a
    quickly evolving industry (software) undergoing constant innovation, and royalty

21 audits, for which identification, location, and retention of copious records may be
    required. N.Y. C.P.L.R. § 213 (McKinney 2003) (providing six-year statute of

22 limitations); IBM Developer Agreement (RJN Ex. A) at § 3.6 (requiring parties to

23 maintain auditable records for only three years from the date of relevant payment or
    invoice under the agreements).

24
      [14]   In June 2007, the parties agreed to toll any limitations periods in order to

25 explore a possible pre-filing resolution of the dispute. By its express terms, the

26 tolling agreement did not revive any claim already time-barred as of its effective
    date or waive any limitations defense. This tolling agreement was unilaterally

27 terminated by plaintiff on November 18 and 19, 2007. Because by the allegations of

28   (footnote continued)

1   IV.   **THE ECONOMIC LOSS RULE BARS RSI'S TORT AND UNFAIR**

2   **COMPETITION CLAIMS**

3   A.   The Economic Loss Rule

4   New York courts consistently hold that, where a contracting party alleges

5   only economic loss (with no damage to person or property), tort claims will not lie,

6   and the remedy lies exclusively in contract. *See, e.g., Orlando v. Novuriana of*

7   *America, Inc.*, 162 F. Supp. 2d 220, 224-26 (S.D.N.Y. 2001) (applying New York

8   law to find that if the damages are the type remedial in contract, a plaintiff may not

9   recover in tort). The courts sometimes state this "economic loss rule" another

10 way—if the plaintiff alleges only that it lost the benefit of its bargain and not the

11 breach of any duty independent of the contractual obligations, tort claims will not

12 lie. *See Carmania Corp. v. Hambrecht Terrell Int'l*, 705 F. Supp. 936, 938

13 (S.D.N.Y. 1989) (buyer of architectural services could recover in contract only since

14 loss was purely economic).

15   The basis for the economic loss rule is that contractual claims and remedies

16 should be distinct from, and not overwhelmed by, tort doctrines. *See id.* at 938. The

17 *Carmania* court described it as an attempt to prevent "contract law 'from drown[ing]

18 in a sea of tort'":

19   The law of contracts is meant to facilitate voluntary
                economic exchange. Plaintiffs who sue successfully for
20   breach of contract are entitled to damages providing them
                with the benefit of the bargains they and the defendants
21   chose to strike—i.e., to be placed in the positions they
                would have enjoyed had the parties' expectations panned
22   out. The law of torts, in contrast, has different goals: to
                deter people from inflicting harm when they behave
23   unreasonably, and to compensate those injured by
                restoring them to the state they occupied before they
24   suffered harm. New York law preserves these distinctions
                by restricting plaintiffs who have suffered "economic
25

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    plaintiff's own Complaint the applicable limitations period expired in 2006, the
27 tolling agreement has no effect on the limitations issues raised in this motion.

28

loss," but not personal or property injury, to an action for the benefits of their bargains. If the damages suffered are of the type remediable in contract, a plaintiff may not recover in tort.

Id. at 938. Thus, New York courts have sensibly sought to prevent precisely what RSI is trying to do here—a recasting of every alleged breach of contract as a tort claim (or, as here, *eight* tort and unfair competition claims) and expose defendants to the possibility of punitive damages and more expansive, wide-ranging, and invasive discovery.[15]

B.   Plaintiff's Tort Claims Arise from the Same Facts as the Contract Claim

That plaintiff has attempted to plead *eleven* causes of action based on only twelve short paragraphs of factual allegations is not surprising when the claims are analyzed: The multitude of tort and unfair competition claims merely restate plaintiff's breach of contract claim. The economic loss rule has been consistently applied to bar these types of claims.

- Count V: Breach of the Covenant of Good Faith and Fair Dealing. Plaintiff's breach of the covenant of good faith and fair dealing claim states merely that "[a] covenant of good faith and fair dealing is implied in the terms of the contractual arrangements imposed upon . . . IBM" and that IBM breached that covenant by "its conduct and course of dealings with plaintiff."[16] Plaintiff alleges

---

[15]   Hawaii, like New York, also recognizes the economic loss rule. *See City of Express, Inc. v. Express Ptrs*, 87 Haw. 466, 469, 959 P.2d 836 (1998) ("The economic loss rule marks the fundamental boundary between the law of contracts, which is designed to enforce expectations created by agreement, and the law of torts, which is designed to protect citizens and their property by imposing a duty of reasonable care on others. The economic loss rule was designed to prevent disproportionate liability and allow parties to allocate risk by contract.") (quoting *Berschauer/Phillips Constr. Co. v. Seattle Sch. Dist.*, 124 Wash. 2d 816, 881 P.2d 986 (1994)).

[16]   Compl. ¶¶ 34-35.

1   no extra-contractual act that breached the covenant. New York law is clear that

2   where a claimed breach of an implied covenant of good faith and fair dealing is

3   duplicative of a breach of contract claim in the same case, the former must be

4   dismissed. *Wolff v. Rare Medium, Inc.*, 171 F. Supp. 2d 354, 359 (S.D.N.Y. 2001)

5   ("Plaintiff's allegation of a breach of the obligation of good faith is duplicative of the

6   cause of action for breach of contract since New York courts generally assume an

7   obligation of good faith and fair dealing between parties to a contract."); *Pub. Serv.*

8   *Mut. Ins. Co. v. Tri-Con Constr. Corp.*, 224 A.D.2d 508, 508, 328 N.Y.S.2d 155,

9   156 (2d Dept. 1996) ("The test is whether the duty of care alleged is one expressly

10 or impliedly stemming from the contractual relationship or one existing

11 independently."). Plaintiff admits that the covenant of good faith and fair dealing at

12 issue is the one implied in the contract that was allegedly breached; it is redundant

13 of plaintiff's breach of contract claim and is barred by the economic loss rule. *See,*

14 *e.g.*, *Nat'l Football League Props., Inc. v. Dallas Cowboys Football Club, Ltd.*, 922

15 F. Supp. 849, 855 (S.D.N.Y. 1996) ("'Under New York law, parties to an express

16 contract are bound by an implied duty of good faith, but breach of that duty is

17 merely a breach of the underlying contract."); *Macmillan, Inc. v. Fed. Ins. Co.*, 764

18 F. Supp. 38, 41 (S.D.N.Y. 1991) ("A simple breach of contract is not to be

19 considered a tort unless a duty independent of the contract itself has been

20 violated."). Plaintiff's fifth cause of action should be dismissed.

21   • Count II-IV: Negligent Misrepresentation, Intentional

22 Misrepresentation and Fraud. Plaintiff's negligent misrepresentation, intentional

23 misrepresentation, and fraud claims are premised on IBM's alleged representation to

24 plaintiff that it would not allow customers to use the Buffer Pool Tool without

25 compensation to plaintiff.[17] The alleged wrong is that IBM's customers continued to

26

27   [17] *Id.* ¶¶ 20, 26-27, 32.

28

1 use the Buffer Pool Tool without royalties flowing to RSI as required under the

2 parties' agreement. This conduct falls within the scope of the parties' agreement: If

3 IBM customers used Buffer Pool Tool, IBM owed RSI a percentage of the revenues

4 it collected. Under New York law, "where a fraud claim seeks to enforce no more

5 than the breached promises and obligations of a contract, rather than additional

6 damages incurred as a result of the breach, the claims are merely redundant and

7 must be dismissed." *R.H. Damon & Co. v. Softkey Software Prods. Inc.*, 811 F.

8 Supp. 2d 220, 228 (E.D.N.Y. 1999) (dismissing fraud claims because "[p]laintiffs'

9 [fraud] claims seek only the compensation they would have received had defendants

10 performed the contract as expected."); *see also Salvador v. Uncle Sam's Auctions &*

11 *Realty, Inc.*, 307 A.D.2d 609, 611, 763 N.Y.S.2d 360, 362 (3d Dept. 2003).

12 Plaintiff's misrepresentation and fraud causes of action should be dismissed because

13 they do nothing more than allege that IBM allowed customers to use the Buffer Pool

14 Tool without paying royalties.

15 •   Count VI: Conversion. The conversion claim is premised on

16 IBM's alleged use of the Buffer Pool Tool without compensation to plaintiff.[18] Here

17 again plaintiff's claim amounts to nothing more than a royalty dispute in disguise,

18 and is barred by the economic loss rule. *See, e.g., Wolf v. Nat'l Council of Young*

19 *Israel*, 264 A.D.2d 416, 416-17, 694 N.Y.S.2d 424, 425 (2d Dept. 1999) (affirming

20 dismissal of conversion counterclaim based upon allegations that plaintiff

21 improperly deducted late fees from monthly mortgage payments in manner not

22 authorized by mortgage agreements because claim did not stem from wrong

23 independent of alleged breach of mortgage agreements); *Interstate Adjusters, Inc. v.*

24 *First Fid. Bank, N.A.*, 251 A.D.2d 232, 234, 675 N.Y.S.2d 42, 44 (1st Dept. 1998)

25 ("A conversion claim cannot be based only on the allegation that a defendant

26 _____

27   [18] *Id.* ¶ 38.

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1 received money and failed to remit payment to the plaintiff."); *Yeterian v. Heather*

2 *Mills N.V. Inc.*, 183 A.D.2d 493, 494, 583 N.Y.S.2d 439, 440 (1st Dept. 1992)

3 ("Concerning the cause of action for conversion, . . . it merely restates the cause of

4 action for breach of contract and alleges no independent facts sufficient to give rise

5 to tort liability. Since an action for conversion cannot be predicated on a mere

6 breach of contract, plaintiff's conversion claim was properly dismissed.").

7 •   <u>Count VII: Common Law Unfair Competition.</u> Plaintiff's claim

8 for unfair competition is also a tort claim based on conduct governed entirely by the

9 parties' written agreements, i.e., IBM's continued use of the Buffer Pool Tool in

10 commerce, and thus should be dismissed.[19] *See, e.g.*, *QC Constr. Prods., LLC v.*

11 *Cohill's Bldg. Specialties, Inc.*, 423 F. Supp. 2d 1008, 1015-16 (D. Ariz. 2006)

12 (economic loss rule barred unfair competition tort claim under Arizona law).

13 V.   **PLAINTIFF'S FRAUD CLAIMS ARE NOT PLEADED WITH THE**

14   **REQUISITE SPECIFICITY**

15   Rule 9(b) requires that "[i]n alleging fraud or mistake, a party must state with

16 particularity the circumstances constituting fraud or mistake." Fed. R. Civ. P. 9(b).

17 The Rule requires claimants to plead specific details of the alleged fraud, including

18 the time, place, and specific content of the false representations at issue, and the

19 identities of the parties to the misrepresentation. *Schreiber Distrib. Co. v. Serv-Well*

20 *Furniture Co.*, 806 F.2d 1393, 1401 (9th Cir. 1986); *see also LaSalle Nat'l Bank v.*

21 *Ernst & Young LLP*, 285 A.D.2d 101, 109, 729 N.Y.S.2d 671, 677 (1st Dept. 2001)

22 (under New York law, plaintiff must allege material misrepresentation of fact,

23 falsity, *scienter*, deception and injury, "and each element must be pleaded with

24 particularity"). Failure to plead these specifics is fatal. *See, e.g.*, *Semegen v.*

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27 [19]   *Id.* ¶ 48 ("IBM's continued use of the Buffer Pool Tool in commerce constitutes unfair competition.").

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1 *Weidner*, 780 F.2d 727, 731 (9th Cir. 1985) (when fraud is alleged, "the absence of

2 specification of any times, dates, places or other details of that alleged fraudulent

3 involvement is contrary to the fundamental purposes of Rule 9(b)").

4 　　　Despite the heightened pleading standard and the seriousness of fraud and

5 intentional misrepresentation claims, RSI has failed to allege sufficient detail to

6 support its claims. Plaintiff alleges only that IBM represented it would not continue

7 to use or allow its customers to use the Buffer Pool Tool; its remaining allegations

8 are pleaded in conclusions that mirror the legal elements of fraud claims without

9 necessary supporting facts.[20] The generality of plaintiff's allegations makes it

10 impossible to assess potentially dispositive details—which should be within RSI's

11 own knowledge—such as when IBM allegedly made and knew about the purported

12 false statements to RSI. Nor is it possible to assess the basis for plaintiff's reliance

13 or damages allegations; there is no indication plaintiff took or refrained from taking

14 any action on the basis of the alleged statement, or that it cost plaintiff anything

15 other the royalties provided for under the parties' agreement (and is therefore

16 compensable only in contract as described above). *See, e.g., Semegen*, 780 F.2d at

17 731 ("The requirements of Rule 9(b) are designed to prohibit a plaintiff from

18 unilaterally imposing upon the court, the parties and society enormous social and

19 economic costs absent some factual basis.").

20 **VI.   <u>PLAINTIFF HAS ALLEGED NO FACTS TO SUPPORT ITS</u>**

21 　　　**<u>LANHAM ACT OR RESTRAINT OF TRADE CLAIMS</u>**

22 　　　Plaintiff completely fails to plead any facts in support of its seventh cause of

23 action for unfair competition under the Lanham Act and ninth cause of action for

24 ────────────

25 　　[20]　*Id.* ¶¶ 26, 32; *see also id.* ¶ 27 (IBM "knew" its customers were continuing to

26 utilize Buffer Pool Tool without compensation to plaintiff); *id.* ¶ 28 (IBM "knew
that Plaintiff would rely on the misrepresentations"); *id.* ¶ 29 (plaintiff relied on

27 IBM's representations); *id.* ¶ 30 (plaintiff was damaged).

28

1 restraint of trade. Plaintiff's claims merely recite legal elements and conclusions of

2 law supported only by vague statements that IBM has led the public to believe the

3 Buffer Pool Tool is inferior or engaged in "concerted actions" to restrain trade.[21]

4 The Court is not required to accept conclusory allegations. *Sprewell v. Golden State*

5 *Warriors*, 266 F.3d 979, 988 (9th Cir. 2001); *In re Syntex Corp. Sec. Litig.*, 95 F.3d

6 922, 926 (9th Cir. 1996) ("Conclusory allegations of law and unwarranted

7 inferences are insufficient to defeat a motion to dismiss for failure to state a

8 claim.").[22]

9 VII. **"UNCLEAN HANDS" AND "PUNITIVE DAMAGES" ARE NOT**

10   **CAUSES OF ACTION**

11   Plaintiff's tenth and eleventh claims are not causes of action at all. Styled as

12 "Unclean Hands," plaintiff's tenth cause of action is in fact an affirmative defense to

13 a hypothetical counterclaim or affirmative defense that IBM has not yet asserted:

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16 [21] *See, e.g., id.* ¶¶ 43-46 (alleging as basis of Lanham Act claim only that IBM
    used Buffer Pool Tool in commerce without authorization, confusing, or likely
17 confusing, public into believing Buffer Pool Tool was inferior, but not alleging how
    or why, and referring to unidentified false or misleading representations or
18 descriptions of fact and unalleged "foregoing acts of disparagement"). Plaintiff's
    restraint of trade allegations are unintelligible and insufficient to put IBM on notice
19 of the challenged conduct. *Id.* ¶ 51 ("IBM has made agreements, or has refused to
20 correct known errors in software for the purpose and/or the effect of unreasonably
    restraining trade, commerce, and industry with respect to the supply and bundling of
21 the software known as the Buffer Pool Tool. The Defendants' [sic] agreements
    violate common law against such conduct in restraint of trade."). Plaintiff alleges in
22 conclusory fashion that: "Defendant IBM has been and is acting for the purpose, and
23 with the effect, of unreasonably restraining trade, commerce, and industry with
    respect to the processing of software. The Defendant's concerted actions violate
24 common law against such conduct in restraint of trade." *Id.* ¶ 52.

25 [22] IBM notes that plaintiff has not made a single factual allegation connecting
26 any purported "Doe" defendants to any of its claims, and their improper inclusion as
27 parties does not bar outright dismissal of plaintiff's Complaint.

28

1 "Defendant IBM's unlawful or wrongful conduct in its course of dealing with

2 Plaintiff constitutes unclean hands which precludes it from asserting or receiving

3 any equitable relief, remedies, or defenses."[23] Unclean hands is an affirmative

4 defense under New York law; not a cause of action. *See, e.g.*, *518 E. 80th St. Co. v.*

5 *Smith*, 251 A.D.2d 215, 216, 674 N.Y.S.2d 680, 681 (1st Dept. 1998) (unclean

6 hands is an equitable defense); *Folium, Inc. v. Int'l Bus. Machs. Corp.*, Civil No.

7 03-92-DAE/LEK, Opinion and Order (D. Haw. Aug. 11, 2003) (RJN Ex. F) at 7 (on

8 similar facts, dismissing cause of action for "unclean hands" because it is an

9 affirmative defense).

10   Similarly, it is well-settled that New York law does not recognize a separate

11 cause of action for punitive damages. *Smith v. County of Erie*, 295 A.D.2d 1010,

12 1011, 743 N.YS.2d 649, 651 (4th Dept. 2002) ("There is no separate cause of action

13 for punitive damages, inasmuch as punitive damages are but an incident of ordinary

14 damages") (internal quotations omitted); *Firth v. State*, 706 N.Y.S.2d 835, 838

15 (N.Y. Ct. Cl. 2000) ("The third cause of action is quickly disposed of as the law is

16 settled that there is not a separate cause of action for punitive damages.").

17   Moreover, plaintiff's prayer for punitive damages is barred by the express

18 terms of the parties' agreements. In Section 7.3 of the Developer Agreement, RSI

19 and IBM mutually agreed that "[n]either party will be liable to the other for lost

20 profits or consequential, <u>punitive</u>, or incidental damages, even if informed of their

21 possibility."[24] This type of damages limitation is consistently enforced by New

22 York courts. *See, e.g.*, *Met. Life Ins. Co. v. Noble Lowndes, Int'l, Inc.*, 618 N.Y.S.2d

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24   [23] *Id.* ¶ 55.

25   [24] IBM Developer Agreement at § 7.3 (RJN Ex. A) ("LIABILITY. Neither

26 party will be liable to the other for lost profits or consequential, <u>punitive</u>, or
    incidental damages, even if informed of their possibility. . . . IBM's total liability for

27 a project is limited to payments due to RSC.") (emphasis added).

28

1 882, 885 (1994) (New York law upholds contracts that limit recovery to money paid

2 and bar consequential damages: "A limitation of liability provision in a contract

3 represents the parties' [a]greement on the allocation of the risk of economic loss in

4 the event that the contemplated transaction is not fully executed, which the courts

5 should honor."); *id.* ("Where a contract provides that damages for breach shall not

6 be recoverable beyond a specified sum, it is obvious that the risk of loss beyond that

7 sum is being assumed by the promisee," quoting 5 Corbin, *Contracts*, § 1068, at

8 386); *DynCorp v. GTE Corp.*, 215 F. Supp. 2d 308, 317-18 (S.D.N.Y. 2002)

9 (enforcing provisions limiting amount of recovery and barring recovery of

10 consequential, special, or punitive damages).

11   Even assuming punitive damages were not barred by the parties' written

12 agreement, plaintiff's request for punitive damages would still be inappropriate and

13 subject to an order to strike.[25] Under New York law, punitive damages should be

14 stricken unless a fraud has been perpetrated on the public at large or the defendant

15 has "manifested a gross and wanton departure from the moral norms of society."

16 *R.H. Damon & Co.*, 811 F. Supp. at 993. Here, RSI has not alleged (and cannot

17 allege) that IBM aimed any improper conduct at the general public or evinced the

18 requisite "gross and wanton" disregard for morality. This case is a simple contract

19 dispute between sophisticated commercial parties; there is no hint of the type of

20 public deception or moral turpitude that would warrant punitive damages under New

21 York law.

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23   [25] Rule 12(f) provides that the Court may "strike from a pleading . . . any

24 redundant, immaterial, impertinent, or scandalous matter." Courts have authority to
     strike a prayer for relief seeking damages that are not recoverable as a matter of law.

25 *See, e.g.*, *Arcilla v. Adidas Promotional Retail Operations, Inc.*, 488 F. Supp. 2d

26 965, 968 (C.D. Cal. 2007); *see also Coffman v. Fed. Labs.*, 323 U.S. 325, 326-27
     (1945) (affirming striking of prayer for injunction where appellant showed no

27 grounds for equitable relief).

28

1   For all these reasons, plaintiff's eleventh claim and its prayer for punitive

2   damages should be dismissed.

3   **Conclusion**

4   For the foregoing reasons, defendant IBM respectfully requests that the Court

5   dismiss plaintiff's Complaint with prejudice or, in the alternative, strike plaintiff's

6   prayer for punitive damages.

7

8   DATED: August 1, 2008   QUINN EMANUEL URQUHART OLIVER &
                                     HEDGES, LLP
9

10   By /s/
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12   Corporation

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